

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: ECON, BEXP, IT

SUBJECT: ANOTHER U.S. FIRM PLANS TO PULL OUT OF ITALY

1. WE HAVE BEEN INFORMED BY MARIO RUZIC, MANAGING DIRECTOR OF OVR SEALMASTER, ITALIAN SUBSIDIARY OF BORG-WARNER CORPORATION, THAT COMPANY PLANS LIQUIDATION PROCEDURES SOMETIME IN FEBRUARY 1977. RUZIC STATED THAT COMPANY HAS BEEN OPERATING AT ANNUAL HALF MILLION DOLS LOSS AND PARENT FIRM HAS DECIDED TO DISCONTINUE PUTTING MORE MONEY INTO ITS ITALIAN OPERATION.

2. RUZIC ATTRIBUTED HIGH LABOR COSTS FORCING PRICE INCREASES OF COMPANY'S PRODUCT (EQUIPMENT FOR MACHINE TOOLS) AND RESULTING LOSS OF SIGNIFICANT MARKET SHARE AS PRIMARY CAUSES FOR LIQUIDATION PROCEEDINGS. RUZIC STATED THAT COMPANY WAS NO LONGER ABLE TO COMPETE WITH OTHER FOREIGN SUPPLIERS.

3. IN 1974-1975 COMPANY MADE MAJOR ATTEMPT TO REDUCE LABOR COSTS BY MAKING INVESTMENT OF OVER 3 MILLION DOLS IN MORE SOPHISTICATED EQUIPMENT AND INCREASED INVENTORY. COMPANY ALSO REDUCED STAFF BY 110 EMPLOYEES IN 1975. RUZIC INDICATED THAT COMPANY'S MOVEERE UNSUCCESSFUL IN RESOLVING FINANCIAL PROBLEMS. RUZIC ALSO NOTED THAT COMPANY IS PRESENTLY OPERATING AT 40 PERCENT CAPACITY AND HIGH ABSENTEEISM (CLOSE TO 20 PERCENT) HAD EXACERBATED SITUATION. CURRENT HIGH COMERCIAL BANK INTEREST RATES (20-25 PERCENT) AS WELL AS INABILITY TO OBTAIN MEDIUM AND LONG-TERM LOANS FROM ITALIAN

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COMMERCIAL BANKS ALSO CONTRIBUTED TO DECISION TO LIQUIDATE.

4. COMMENT. WITHIN THE PAST 12 MONTHS OVR SEALMASTER, S.P.A. HAS BEEN FOURTH U.S. COMPANY IN AREA TO LIQUIDATE, INCLUDING LA SALLE-CIMAT, SINGER, AND STEELWELD. FOR ALL FOUR COMPANIES, MOST CRITICAL PROBLEM HAD BEEN HIGH LABOR COSTS. WORKER CONTRIBUTIONS FOR SOME COMPANIES HAVE RANGED AS HIGH AS 120 PERCENT OF WORKERS' SALARIES. OUR AMERICAN COMPANY SOURCES TELL US THAT MANY ITALIAN COMPANIES HAVE NOT BEEN AS SEVERELY AFFECTED BY LABOR COSTS BECAUSE OF UNDER-THE-TABLE AGREEMENTS WHICH ALLOW THEM NOT TO PAY TOTAL COSTS. OUR AMERICAN COMPANY SOURCES SPECULATE THAT IN THE FUTURE OTHER U.S. FIRMS IN THE AREA WILL BE FORCED TO CLOSE THEIR OPERATIONS IN ITALY AND EXPORT FROM THE STATES WHERE LABOR COSTS ARE NOW LESS COSTLY. WRIGHT

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